

Message Text

CONFIDENTIAL

PAGE 01 LONDON 11689 01 OF 02 301453Z

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SS-15 SP-02 NSC-05 L-03 H-02

COME-00 TRSE-00 FEA-01 OES-03 CIAE-00 INR-07 NSAE-00

PRS-01 CIEP-01 OMB-01 SAM-01 AF-06 ARA-06 EA-06

NEA-10 /090 W

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R 301440Z JUL 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3330

INFO USMISSION OECD PARIS

AMEMBASSY BONN

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 11689

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: THE OIL - MONEY PROBLEM

REF: STATE 169414

SUMMARY: REVIEW OF ARGUMENTS REFTEL WITH HAROLD LEVER PRODUCED SOME CLARIFICATION OF HIS VIEWS, THOUGH NO CHANGE. LEVER'S COMMENTS ARE SUMMARIZED BELOW. HIS IDEAS ON INDEXATION REMAIN HIS OWN, NOT ASSIMILATED BY HMG, AND HE SAYS CHANCELLOR SCHMIDT HAS BACKED AWAY FROM INDEXATION. LEVER WANTS TO CONTINUE DIALOGUE WITH VIEW TO EVOLVING POSITION AS PRODUCER-CONSUMER DIALOGUE DEVELOPS. END SUMMARY.

1. AMBASSADOR CALLED ON LEVER JULY 28 AND REVIEWED THE REASONS SET FORTH REFTEL WHY THE USG DOES NOT SHARE HIS ASSESSMENT AND CONCLUSIONS ON THE OIL-MONEY PROBLEM. HIS MORE SIGNIFICANT COMMENTS FOLLOW, ARRANGED MORE OR LESS IN THE ORDER OF THE REFERENCE CABLE.

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PAGE 02 LONDON 11689 01 OF 02 301453Z

2. LEVER AGREES ENTIRELY THAT LONG RUN PROBLEM IS TO

REDUCE DEPENDENCE ON OPEC AND CONSEQUENT VULNERABILITY; HE IS NOT ADDRESSING THIS PROBLEM BUT RATHER THE URGENT INTERIM PROBLEM OF THE NEXT 5 - 10 YEARS WHEN OIL SUPPLY AND PRICE AND MONEY MANAGEMENT ARE MAJOR ECONOMIC AND POLITICAL PROBLEMS. HE DOES NOT THINK AGREEMENT ON PRICE ARRANGEMENTS WOULD UNDERMINE CONSUMER RESOLVE BUT WOULD RATHER BE THE FIRST REAL MEANINGFUL ACCOMPLISHMENT OF CONSUMER SOLIDARITY. INDEXATION ALSO WOULD BE THE BEST AVAILABLE EVIDENCE OF A FLOOR PRICE FOR PROSPECTIVE NEW ENERGY PRODUCERS IF ONE BELIEVES IN THIS CONCEPT.

3. INFLATIONARY IMPACT OF INDEXATION SHOULD NOT BE PRICE

WITHOUT INDEXATION. LEVER SEES NO EVIDENCE OF CRACK IN OPEC IN NEAR FUTURE; INDEED STRAIN WILL BE LESS WHEN WESTERN ECONOMIES REVIVE AND DEMAND INCREASES, AND OPEC COUNTRIES CAN SEE CONSEQUENCES IF THEY DON'T MAINTAIN PRICE AGREEMENT WHICH IS SOURCE OF THEIR NEW STRENGTH AND WEALTH. HENCE HE THINKS PROBABILITY IS THAT PRICE WILL BE LOWER IF INDEXED, E.G. STARTING AT TEN DOLLARS, THAN IF NO DEAL IS MADE. IN ADDITION STABILITY WOULD BE GAINED. IF HE IS WRONG, CONSUMERS WILL PAY ONLY marginally MORE THAN THEY WOULD HAVE PAID. LEVER MENTIONED IN THIS CONNECTION THAT THE SHAH HAD TOLD HIM HE WOULD HOLD OFF ON PRICE RISES DURING NEGOTIATIONS IF CONSUMERS WERE SERIOUS ABOUT NEGOTIATING INDEXATION.

4. LEVER DOES NOT SEE OIL PRICE INDEXATION AS MEANING PRICE INDEXATION FOR OTHER COMMODITIES. PRODUCERS OF OTHER COMMODITIES WILL CARTELIZE IF THEY CAN, WHETHER OR NOT OIL IS INDEXED, AND HE THINKS THEY ARE LESS LIKELY TO GET FINANCIAL HELP FROM OPEC COUNTRIES IF WE MAKE A DEAL WHICH COOLS LATTER. POINT WHICH EMERGES IS THAT SITUATION, HOPING THAT OPEC WILL CRACK, WE ALSO MAY ENCOURAGE A RETALIATORY ATTITUDE, WHICH COULD HAVE SERIOUS RESULTS IN THE HANDLING OF OPEC COUNTRIES FUNDS.

THEY WILL THEN HAVE INCENTIVE TO EGG ON OTHER COMMODITY PRODUCERS AND POSSIBLY FINANCE THEM IN CARTELS WHICH

CONFIDENTIAL

PAGE 03 LONDON 11689 01 OF 02 301453Z

WOULD NOT OTHERWISE BE ECONOMICALLY VIABLE.

5. ON QUESTION OF OIL PRODUCERS' FINANCIAL ASSETS, LEVER DOES NOT CONSIDER INDEXING OR OTHER MAINTENANCE OF VALUE CRUCIAL; HIS MAIN CONCERN IS TO INSTITUTIONALIZE CONTROL OF FUNDS. PART OF HIS PLAN IS TO TAKE CARE OF LDOS WITH OIL PRODUCER FUNDS. MONEY SHOULD BE INSTITUTIONALIZED FOR THIS PURPOSE TO GO BACK WHERE IT

IS NEEDED. HE WOULD PREFER NEW INSTITUTION TO IMF AND ASSUMES CONSUMERS WOULD HAVE AT LEAST 50-50 VOICE IN NEW INSTITUTION.

6. LEVER THINKS THERE IS NO COMPARISON BETWEEN OPEC COUNTRY AGREEMENTS WITH OIL COMPANIES AND THE KIND OF A DEAL HE CONTEMPLATES. LATTER WOULD BE SOLEMN PROMISE AMONG GOVERNMENTS, REACHED IN SITUATION OF TENSION

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PAGE 01 LONDON 11689 02 OF 02 301453Z

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 11689

INVOLVING SHARPENING POLITICAL-MILITARYND MONETARY DANGERS, WHICH OPEC COUNTRIES COULD HARDLY LIGHTLY BREAK. IF THEY DID SO AT LEAST THIS WOULD RESULT IN MUCH HEIGHTENED SOLIDARITY AND FIRMFNESS AMONG CONSUMERS.

7. IN THE OVERALL, LEVER THINKS OUR ANALYSIS TENDS TO BE SOMEWHAT EMOTIONAL. WE RESENT EXTORTION AND DO NOT WISH TO CONDONE IT. THIS IS A VERY REASONABLE REACTION, BUT IS IT COLORING JUDGMENTS ON THE LIKELIHOOD OF OPEC CRACKING? WHY SHOULD EVEN THOSE OPEC COUNTRIES WHICH NEED FUNDS BREAK AWAY WHEN THEY CAN SEE THE RESULT?

THE ADVERSARY/CONFRONTATIONAL APPROACH ALSO IS WEAKENED, LEVER SAYS, BY LACK OF REAL UNITY AMONG CONSUMERS EXCEPT ON DISTANT THINGS. EVEN CALLING CONFERENCE WAS PART OF PROCESS OF CONSUMERS COMPETING FOR FAVOR WITH SUPPLIERS.

8. LEVER SAID PERSISTENT OFFICIALDOM HAS KEPT UKG FROM ACCEPTING HIS LINE. HE THINKS CALLAGHAN AND WILSON WERE FAVORABLY INCLINED BUT WILSON WOULD NOT OVERRIDE CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 11689 02 OF 02 301453Z

TREASURY, WHICH IS AGAINST INDEXATION. (TREASURY SOURCES ALSO TELL US TREASURY--AND FCO--OPPOSE INDEXATION GENERALLY.) CHANCELLOR SCHMIDT, HE SAID, ALSO HAS BACKED AWAY FROM INDEXATION AND WOULD PREFER AN ANNUAL PRICE REVIEW. LEVER HIMSELF IS AGAINST AN ANNUAL REVIEW, WHICH WOULD CONCEDE PRINCIPLE OF UPWARD ADJUSTMENT WITHOUT SETTING LIMITS.

9. REGARDING QUESTIONS PARA 9 REFTTEL, LEVER SAYS HE SEES UK INTERESTS AS CRUCIALLY INTERDEPENDENT WITH INTERESTS OF CONSUMERS AS A GROUP. ALL CONSUMERS HAVE SERIOUS SHORT RUN VULNERABILITY, WHICH IS WHAT HE IS TRYING TO MEET.

10. LEVER SAID FINALLY THAT HE HOPES TO CONTINUE TALK. WE ARE IN A POOR POSITION APPROACHING A CONFERENCE WITHOUT BEING PREPARED TO MAKE A DEAL AND WE WILL NEED TO KNOW WHERE WE CAN TURN AS CONFERENCE GOES FORWARD.

RICHARDSON

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